

## Message Text

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TAGS: PFOR, ECON, PL, UR, EFIN

SUBJECT: 1977 SOVIET-POLISH ECONOMIC PROTOCOL

1. DEPARTMENT APPRECIATES EMBASSY'S PROMPT REPORTING AND EVALUATION OF SOVIET-POLISH ECONOMIC PROTOCOL. FOR THE EMBASSY'S INFORMATION AND COMMENT, WE ARE TRANSMITTING THE TEXT OF AN ARTICLE WHICH APPEARED IN THE WASHINGTON POST OF NOVEMBER 20. THE ARTICLE, ENTITLED "SOVIET AID PACKAGE FOR POLAND INCLUDES \$1.3 BILLION LOAN", WAS WRITTEN BY DAVID LACELLES OF THE LONDON FINANCIAL TIMES AND BEARS THE DATE LINE "LONDON, NOVEMBER 19."

2. BEGIN QUOTE: THE SOVIET UNION HAS COME TO THE RESCUE OF ITS LARGEST ALLY, CRISIS-STRIKEN POLAND, WITH AN ECONOMIC AID PACKAGE THAT INCLUDES A SUBSTANTIAL, CHEAP LOAN AND DELIVERIES OF FOOD, RAW MATERIALS, CAPITAL EQUIPMENT, AND OTHER CONSUMER GOODS. THE PACKAGE, ONE OF THE LARGEST OF ITS KIND EVER PUT TOGETHER BY THE SOVIETS, REFLECTS MOSCOW'S DEEP ANXIETY ABOUT THE TROUBLES THAT HAVE GRIPPED POLAND SINCE LAST JUNE'S FOOD PRICE RIOTS. THE PACKAGE, UNCLASSIFIED

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WHICH INCLUDES A \$1.3 BILLION LOAN, SHOULD RELIEVE EDWARD

GIEREK THE POLISH LEADER, OF THE NEED TO IMPOSE FURTHER TOUGH ECONOMIC MEASURES OF THE KIND THAT PROVOKED RIOTS

WHEN GIEREK ANNOUNCED, BIG PRICE INCREASES. THE INCREASES WERE RESCINDED AS A RESULT OF THE UNREST. THE AID SHOULD STRENGTHEN POLAND'S ABILITY TO PAY OFF ITS MULTIBILLION-DOLLAR DEBTS IN THE WEST BECAUSE THE SOVIETS WILL NOW DELIVER MATERIALS THAT WOULD OTHERWISE HAVE HAD TO COME FROM WESTERN MARKETS. THE POLES WILL ALSO BE ABLE TO PRODUCE MORE GOODS TO SELL OUTSIDE THE SOVIET BLOC. THE RESCUE, UNDER NEGOTIATION SINCE EARLY AUTUMN, WAS FINALLY AGREED DURING LAST WEEK'S TALKS IN MOSCOW BETWEEN LEONID BREZHNEV, THE SOVIET LEADER AND GIEREK. IT IS NOT EXPECTED TO BE ANNOUNCED FOR SOME WEEKS, PROBABLY AT THE DECEMBER MEETING OF THE POLISH PARLIAMENT. (THE POLISH NEWSPAPER TYGODNIK KULTURALNY SAID TODAY THAT "THE SOVIET UNION WILL DELIVER TO POLAND FOOD-STUFFS, FIRST OF ALL GRAIN; COTTON, TEXTILE MACHINES, EXTRA AGRICULTURAL MACHINES AND VARIOUS ARTICLES

OF COMMON USE," UNITED PRESS INTERNATIONAL REPORTED FROM WARSAW. THE NEWSPAPER DID NOT PUBLISH ANY FIGURES ON THE IMPORTS. IN THE PAST, THE SOVIETS HAVE DELIVERED 1.5 MILLION TONS OF GRAIN ANNUALLY TO POLAND. THE UNITED STATES EXPORTED ABOUT 3 MILLION TONS OF GRAIN TO POLAND LAST YEAR, UPI SAID). CENTERPIECE OF THE SOVIET AID PACKAGE IS A 1 BILLION RUBLE LOAN (1.3 BILLION AT THE OFFICIAL RATE OF EXCHANGE), AVAILABLE, ACCORDING TO POLISH SOURCES OVER A MEDIUM TERM AT LOW INTEREST. IN EAST EUROPEAN PARLANCE, THIS COULD MEAN FIVE TO 10 YEARS, INCLUDING A GRACE PERIOD, WITH AN INTEREST RATE OF ABOUT 2 PER CENT, COMPARED TO THE 3 TO 5 PER CENT CONSIDERED NORMAL FOR LOANS WITHIN SOVIET BLOC ECONOMIC COMMUNITY. BECAUSE THE RUBLE IS NOT A CONVERTIBLE CURRENCY, THE MONEY WILL TAKE THE FORM OF A CREDIT FOR POLISH PURCHASES IN THE SOVIET UNION. IT WILL BE REPAID BY LATER DELIVERIES OF POLISH GOODS TO THE SOVIET UNION. ON TOP OF THE CREDIT, THE SOVIETS HAVE PROMISED TO MAKE AVAILABLE EXTRA SUPPLIES OF RAW MATERIALS AND MANUFACTURED GOODS ABOVE THE LEVELS LAID DOWN BY THE FIVE-YEAR TRADE AGREEMENT NEGOTIATED LAST YEAR. THE WHOLE PACKAGE IN FACT, IS DESCRIBED AS BEING UNCLASSIFIED

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OUTSIDE THE TWO COUNTRIES' FIVE-YEAR PLANS, WHICH HAVE ONLY JUST COME INTO OPERATION. THE POLES DENY THAT THERE ARE ANY STRINGS ATTACHED TO THE LOAN. INSTEAD, THE PACKAGE IS PRESENTED AS A MOVE TO HELP POLAND REGAIN ECONOMIC AND POLITICAL STABILITY WHICH IS AS MUCH IN THE SOVIETS' INTERESTS AS THE POLES'. THE RUSSIANS ARE ALSO WARY OF OPENLY INTERFERING IN POLAND AT A TIME WHEN THE ATMOSPHERE IS STILL TENSE. THE AIM OF THE PACKAGE IS TO TAKE THE

PRESSURE OFF POLAND'S BALANCE OF PAYMENTS AND GIVE GIEREK  
MORE ROOM TO MANEUVER. FREED OF THE NEED TO BALANCE HIS  
COUNTRY'S ALREADY VERY LARGE IMPORTS FROM THE SOVIET UNION

WITH EXPORTS OF POLISH FOOD AND GOODS WHICH HE BADLY NEEDS  
TO MEET INTERNAL DEMAND, HE SHOULD BE BETTER PLACED TO  
OVERCOME THE CRISIS. UNTIL THE RESCUE WAS ARRANGED, PO-  
LAND WAS IN A STATE OF ECONOMIC LIMBO. THE GOVERNMENT,  
BADLY SHAKEN BY THE RIOTS, HAD PUT OFF UNPOPULAR BUT NECES-  
SARY ECONOMIC MEASURES FOR 18 MONTHS, BUT HAD FAILED TO  
COME UP WITH ANYTHING IN THEIR PLACE." END QUOTE KISSINGER

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